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TAGS: ECON ELAB ETRD EFIN IT EUN
SUBJECT: APPROACHES TO ECONOMIC STAGNATION IN ITALY'S CENTER-NORTH: A TALE OF TWO REGIONS

¶1. Summary. Italian business associations from the Emilia-Romagna and Tuscany regions report a slowdown in traditional manufacturing industry output and a decline in earnings for regional producers. Local observers attribute this stagnation to a decrease in competitiveness of Italian products due to the strong Euro and to a decline in productivity. Additional negative factors include increased imports from non-EU countries (including counterfeited and illegally-imported products) higher energy and services costs, and high taxes. High prices penalize the tourist industry, while the small size of the average company and a management/ownership generation gap are considered structural weaknesses even more important than the lack of modern infrastructure.

¶2. On the positive side, according to ISTAT (National Institute of Statistics) data, total exports increased 10.7 percent in Emilia Romagna and 2.5 percent in Tuscany in the first six months of 2005 compared to the same period in 2004. With combined exports totalling 28.7 billion euros in this period the two regions accounted for over 20 percent of Italian exports. Higher investments in high tech are reported in Emilia-Romagna with a focus on increasing productivity and re-launching their world-famous products (packaging machinery, motor vehicles, bio-medical equipment, tiles, etc.) through innovation and improved quality. In Tuscany, where traditional industries continue to suffer from increased Asian competition, and lack of modern infrastructure, the focus is more on developing new sectors and increasing industry/university cooperation in research. End Summary.

Tuscany: a stagnating economy

¶3. According to Unioncamere (Union of Tuscan Chambers of Commerce), industrial production in Tuscany declined three percent in the first six months of 2005 compared to the same period in 2004. Exports increased a mere 2.5 percent in the same period, one of the weakest export performances among Italian regions. Higher employment figures (up 1.4 percent in the second half of the year compared to 2004) are likely a statistical anomaly caused by the 2004 general amnesty of illegal immigrants and an increase of temporary/flexible labor contracts introduced by recent labor legislation. Wage supplement benefits for temporarily laid-off workers increased 11.3 percent in the first seven months of 2005.

¶4. Industrial production continued to decline in two of the leading industrial sectors in Tuscany: apparel and textiles (down four and seven percent in the first and second quarters of 2005) and leather and leather goods (including footwear, down 5.6 percent and 3.8 percent respectively). Production also declined in the gold jewelry and paper and cardboard industries. Authorities attribute the drop in paper and cardboard production to a decrease in competitiveness due to higher energy and labor costs.

Tuscan government and Chamber of Commerce Efforts
"Full of Sound and Fury . . .

¶5. In a recent meeting, Tuscany President Claudio Martini outlined three ways to improve Tuscany's competitiveness: 1) Increase innovation by increasing funding for research and encouraging university/industry cooperation; 2) Improve port, airport, and highway infrastructure; and 3) Ease bureaucratic and fiscal obstacles to foreign investments. Martini views innovation and research as essential for Tuscany's small and medium size producers since they can no longer compete with low labor cost countries.

¶6. Martini mentioned cooperation between large textile firms in Prato and Pisa university labs in the study of a fabric that can "eat smog particles" and release them during washing. Looking ahead, he wants to establish cooperative agreements between Tuscany's five universities (Florence, Siena, Pisa, and Pisa's Normale and Sant'Anna schools) and U.S. universities in order to increase research and innovation in his region. The Province of Florence has similar plans for promoting cooperative R&D efforts between the private sector and universities.

¶7. In 2005, the regional government allocated 270 million euros to sustain the fashion, machine tools, and shipyard industries (53 million); industries that invest in research and development (18.5 million), and/or in product innovation (95 million.) An additional 90 million euros have been allocated to improve infrastructure and create research and service centers for the transfer of technology.

¶8. Tuscany Confindustria (Association of Italian Industries) President Sergio Ceccuzzi believes bureaucracy, lack of infrastructure, and limited investment in research are Tuscany's "weak" points. Confindustria has been promoting a yearly "Innovation Week" since 2003, in the hope of stimulating investments.

¶9. Luca Mantelassi, President of the Florence Chamber of Commerce, emphasizes the importance of research and knowledge-based companies for the future of the local economy. In particular, he wants to promote partnerships between the biotech research center at the University of Florence and American universities and biotech companies. The center has developed several new technologies, particularly in molecular diagnostics and new drug discovery, but will need partners to bring these technologies to commercialization.

¶10. The Chamber of Commerce has also created "Firenze Tecnologia," a special agency aimed at supporting economic growth in high-tech sectors. Firenze Tecnologia has an innovation manager responsible for making connections and facilitating partnerships between universities and local companies. Firenze Tecnologia also has a showroom dedicated to new materials for the apparel/textile industries and other industries developed by institutions and companies in this area.

¶11. Mantellassi believes that Italian firms can compete in high-end and medium priced products provided they have innovative products keep their costs down. The Florence Chamber of Commerce has launched an "incubation project" aimed at helping traditional industries increase their exports by providing a company with know-how and the personnel to improve marketing in foreign markets. Companies can use the "incubation project" at no cost for 2-3 years. If exports increase, the company pays a fee according to the volume of its exports.

. . . but signifying nothing."
Eli Lilly: A case in point

¶12. Eli Lilly Pharmaceuticals recently decided to make an investment of approximately $150 million for the conversion of its existing plant in Florence to a state-of-the-art production facility for human insulin. Company managers reported they received little support from national or local officials, despite the fact that no other major pharmaceutical company had made an investment of this size in Italy in over ten years. Managers said that they made the decision almost exclusively out of loyalty to their workforce. In competing for the investment with other nations, Italy came up short in terms of economic incentives and overall ease of doing business. Lilly officials also said Italy is not a main destination for investment due to the difficult business climate faced by these industries, particularly in their dealings with the National Health System.

New ideas to reduce bank-financing costs

¶13. The banking system works well only for large companies, according to Tuscany Confindustria President Ceccuzzi. He believes banks should take measures to make their services more available to small to medium size companies, which suffer from difficult and expensive access to credit, an increasingly important issue in the larger, global markets. In order to support its members in their relations with the banking system, the Tuscan chapter of Confindustria established a company earlier this year with the purpose of training members in negotiating with banks. The company's capital is private, and no partner can own more than three percent of the shares. The company, which employs one of the top financial experts in Tuscany, acts as financial advisor to Tuscany Confindustria's small and medium sized members. It offers its services at a "success fee", i.e. at no cost for the small manufacturer if it fails to negotiate better conditions with the banking system. Two companies have already benefited from this initiative.

Emilia-Romagna: signs of growth after a period of stagnation

¶14. According to the Association of Small Industries, Emilia-Romagna GNP is estimated to total 120 billion euros in 2005, up 0.6 % from the previous year, one of the better performances among Italian regions this year. In addition, according to ISTAT, the value of the region's exports in the first six months of 2005 increased 10.7% from the same period of 2004, the best regional performance in Italy. Emilia-Romagna exports exceeded 18.1 billion euros in this period, the third highest among Italian regions.

¶15. A recent study by Milan's Politecnico University notes that Emilia-Romagna has the largest number of high-tech companies after Lombardy and Piemonte, and leads in terms of company longevity, growth, business volume and average number of employees. The study states this will likely form the basis of improving economic growth in the future, since product innovation and productivity improvements are viewed as key to emerging from economic stagnation. Business associations give the Regional Government credit for stimulating cooperation

between university and industry in research, which contributed to the growth of high tech companies in the region. Biomedical, precision apparatus, and high tech mechanical products are listed as some of the best performing sectors, while "mature" industries such as apparel and ceramic tiles are suffering from foreign competition.

Local Governments sustain industry

¶16. Bologna Confindustria Director Giuliano Gotti believes that the performance of Emilia-Romagna's high tech companies and the growth in exports are positive developments, but says the difficulties of family-owned, small and medium size companies, the backbone of the local economy, are still serious. His opinion, shared by most business leaders in the consular district, is that undercapitalization, lack of easy access to capital markets, and generational change in management and ownership structure are obstacles to success in the global market. New generations of manufacturers are less motivated than their ancestors and too often put their company earnings in real estate (as they put them in state bonds 15 years ago at the peak of interest rates) rather than in R&D. When modern technology, capital, and governance policies are followed, he told us, local companies continue to excel and compete successfully in many sectors

¶17. Gotti confirmed that regional government policies compliment industry efforts by favoring industry/university cooperation in research and especially by concentrating decreasing public resources on those sectors that have a chance to compete in international markets. Likewise, the Bologna Chamber of Commerce reports several regional-sponsored projects aimed at promoting competitiveness:

"Piu'" brings small and medium-sized companies into the university to study the development of new products and the patent process;
"Hi-Mec" forms technology transfer partnerships between academia and the business community, particularly in the field of mechanical products;
"PRAI" promotes the development of the healthcare technologies industry and the biotechnology sector in the area.

The European Commission has recognized the region's Agency for Technological Development (ASTER) achievements by bestowing the 'Award of Excellence' on the Region of Emilia-Romagna for the creation and development of innovative enterprises.

Labor Unions cooperate, including CGIL

¶18. While some local labor union leaders continue to defend industries for ideological reasons, criticize restructuring, and fight relocation, other realize that the good times are over and are willing to look into new ways to promote economic growth. During meetings organized by business associations or center-left think tanks, CGIL (largest, leftist oriented Italian labor union) representatives urged local authorities to promote university/industry cooperation (a scandalous suggestion until recent years in the heavily politicized Tuscan and Emilia-Romagna Universities), to assist industries that invest in research, and to increase deregulation (with a view to reducing financial revenues vis-`-vis production revenues.)

¶19. Comment: While business leaders and economists point to "external" issues such as the strength of the Euro, unfair Asian competition, and counterfeiting as important reasons for the loss of competitiveness of Tuscan and Emilia-Romagna products in their still large, traditional industries, "internal" weaknesses are increasingly cited as equally if not more important factors. The decline of productivity is viewed as a major problem, and it is attributed to the delay with which information and communication technologies are adopted or efficiently utilized by local producers. This fact appears to be particularly significant in regions, such as Tuscany (less so in Emilia-Romagna) that specialize in traditional industries, which benefit less from these technologies. Other structural weaknesses, such as the companies' small size, the generational change, and the lack of modern infrastructure in Tuscany appear as formidable obstacles to sustained economic recovery.

¶20. Comment continued: The recent increase in exports by Emilia-Romagna producers appears to be a consequence of the region's investment in high technology but also of the upward trend of the dollar in 2005. We found no one willing to consider it a significant step out of stagnation. However, we also noticed a much greater awareness among public administrators and management/labor leaders in both regions that the good times are over. As a local Tuscan public administrator put it, "we have seen many small artisans and shop owners close down in the last two years, but we have seen no noticeable increase in the number of pension applications. This means that people unable to compete in traditional activities are still willing to try and make it in new areas." End Comment.
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